

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS

**PROFESSIONAL ENGINEERS' FUND
FINANCIAL STATEMENT AUDIT**

**FOR THE SIX MONTHS ENDED
SEPTEMBER 30, 2001**



**CHARLES C. MADDOX, ESQ.
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



August 27, 2003

David A. Clark
Director
Department of Consumer and Regulatory Affairs
941 North Capitol Street, N.E., Suite 9500
Washington, D.C. 20002

Eugene Bentley
Chairman
Board of Directors
District of Columbia Board of Professional Engineers
941 North Capitol Street, N.E., Suite 7200
Washington, D.C. 20002

Natwar M. Gandhi
Chief Financial Officer
Office of the Chief Financial Officer
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Room 209
Washington, D.C. 20004

Dear Mr. Clark, Dr. Bentley, and Dr. Gandhi:

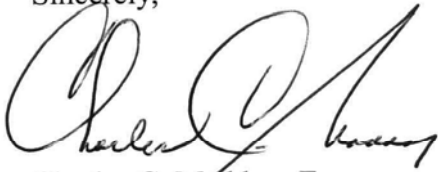
Enclosed is our report (OIG No. 3-1-9CR(a)) summarizing the results of the Office of the Inspector General's (OIG) financial statement audit of the Department of Consumer and Regulatory Affairs-Professional Engineers' Fund for the six months ended September 30, 2001. The Auditor's Report on Financial Statements presents an unqualified opinion.

The Auditor's Report on Compliance and on Internal Control over Financial Reporting identified a reportable condition involving internal controls over financial reporting that we considered to be a material weakness. A management letter will be prepared containing comments and recommendations on other matters that came to our attention that we believe will improve the management of the Professional Engineers' Fund.

We received a response from the Department of Consumer and Regulatory Affairs (DCRA) on August 20, 2003, to a draft of this report. We consider actions taken and/or planned by DCRA to be responsive to the recommendation. The complete text of DCRA's response is included at Exhibit III.

We appreciate the cooperation and courtesies extended to our staff during this audit. If you have questions, please call me or William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles C. Maddox". The signature is stylized with large, flowing loops.

Charles C. Maddox, Esq.
Inspector General

CCM/ws

Enclosure

cc: See attached distribution list

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Attention: Patrick J. Hart (1 copy)

**DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
PROFESSIONAL ENGINEERS' FUND
FINANCIAL STATEMENT AUDIT
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001**

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



Auditor's Report on Financial Statements

David A. Clark
Director
Department of Consumer and Regulatory Affairs
941 North Capitol Street, N.E., Suite 9500
Washington, D.C. 20002

Eugene Bentley
Chairman
Board of Directors
District of Columbia Board of Professional Engineers
941 North Capitol Street, N.E., Suite 7200
Washington, D.C. 20002

Natwar M. Gandhi
Chief Financial Officer
Office of the Chief Financial Officer
1350 Pennsylvania Avenue, N.W., Room 209
Washington, D.C. 20004

To Mr. Clark, Dr. Bentley, and Dr. Gandhi:

We have audited the accompanying financial statements of the Professional Engineers' Fund of the Government of the District of Columbia Department of Consumer and Regulatory Affairs as of and for the six months ended September 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the Professional Engineers' Fund (PEF) management and the Office of the Chief Financial Officer (OCFO). Our responsibility is to express an opinion on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant

estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the PEF as of September 30, 2001, the results of its operations, changes in net assets, and cash flows for the six months ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2003, on our consideration of PEF's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report identifies material weaknesses in internal control over financial reporting required to be reported under *Government Auditing Standards*.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

CCM/cj

**DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
PROFESSIONAL ENGINEERS' FUND
FINANCIAL STATEMENT AUDIT
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001**

STATEMENTS OF NET ASSETS

ASSETS	September 30, 2001	March 31, 2001
	<hr/>	<hr/>
Current Assets:		
Cash (Pooled)	237,447	224,932
Cash Advances	8,673	10,188
Accounts Receivable	1,495	-
Prepaid Expenses	115,025	115,025
	<hr/>	<hr/>
Total Assets	\$ 362,640	\$ 350,145
	<hr/> <hr/>	<hr/> <hr/>
 LIABILITIES & NET ASSETS		
Current Liabilities:		
Deferred Revenue	162,515	162,515
Unprocessed Applications	8,673	10,188
	<hr/>	<hr/>
Total Current Liabilities	171,188	172,703
	<hr/>	<hr/>
Long Term Liabilities	-	-
	<hr/>	<hr/>
Total Liabilities	171,188	172,703
	<hr/> <hr/>	<hr/> <hr/>
 Total Net Assets	\$ 191,452	\$ 177,442
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
PROFESSIONAL ENGINEERS' FUND
FINANCIAL STATEMENT AUDIT
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001**

**STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS**

	September 30, 2001	March 31, 2001
Revenues		
Renewal of License	\$ 4,320	\$ 162,515
Other Fees	21,610	29,561
Total Revenue	<u>25,930</u>	<u>192,076</u>
Expenses		
Commissions	11,920	115,025
Meeting Costs	-	1,000
Membership Dues	-	5,000
Travel	-	1,616
Total Net Expenditures	<u>11,920</u>	<u>122,641</u>
Excess of Revenues over Expenses	14,010	69,435
Net Assets at March 31, 2001	<u>177,442</u>	<u>108,007</u>
Net Assets at September 30, 2001	<u>\$ 191,452</u>	<u>\$ 177,442</u>

The accompanying notes are an integral part of these financial statements.

**DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
PROFESSIONAL ENGINEERS' FUND
FINANCIAL STATEMENT AUDIT
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001**

STATEMENTS OF CASH FLOWS

	September 30, 2001	March 31, 2001
Cash Flows from Operating Activities		
Net Operating Income	\$ 14,010	\$ 69,435
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Decrease (Increase) in Advances	1,515	(485)
Decrease (Increase) in Prepaid Expenses	-	80,815
Decrease (Increase) in Accounts Receivable	(1,495)	
Increase (Decrease) in Deferred Revenues	-	(133,481)
Increase (Decrease) in Unprocessed Applications	(1,515)	485
Net Cash Provided by Operating Activities	12,515	16,769
Cash at Beginning of Year	224,932	208,163
Cash at End of Year	\$ 237,447	\$ 224,932

The accompanying notes are an integral part of these financial statements.

**DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
PROFESSIONAL ENGINEERS' FUND
FINANCIAL STATEMENT AUDIT
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001**

NOTES TO THE FINANCIAL STATEMENTS

(1) Summary Of Significant Accounting Policies

(a) PEF Organization

The District of Columbia Professional Engineers' Registration Act of 1950 established the Professional Engineers' Fund (Fund) of the District of Columbia Department of Consumer and Regulatory Affairs (DCRA). The Fund was established to account for the collection of application, registration, and related fees associated with professional engineers and engineers-in-training. This separate revenue fund is allocable towards those expenses determined by the District of Columbia Board of Registration for Professional Engineers (the Board) to be necessary and proper.

The Mayor of the District of Columbia appoints the seven-member board. The Board has the responsibility of regulating the practice of engineering and land surveying; and provides for the licensure of qualified persons as Professional Engineers and Land Surveyors and for the certification of Engineering Interns and Land Surveyor Interns. It also has the additional responsibility of safeguarding life, health, and property and of promoting public welfare, the practice of engineering and the practice of land surveying in the District of Columbia. The Board is thereby subject to regulate in the public interest.

(b) Basis of Accounting

The PEF is maintained in accordance with the principles of fund accounting to ensure the observance of limitations and restrictions on the resources available. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities, fund equity or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The PEF operates under one proprietary fund category – the Enterprise Fund.

(c) Enterprise Fund

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NOTES TO THE FINANCIAL STATEMENTS

The Enterprise fund accounts for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The PEF applies all GASB (Governmental Accounting Standards Board) pronouncements as well as the Financial Accounting Standards Board pronouncements, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(d) Method of Accounting

The Enterprise Fund uses the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash.

The Office of the Chief Financial Officer (OCFO) provides accounting services to the DCRA for the PEF. Revenue collections for the PEF are now accounted separately from the District of Columbia General Fund. The District of Columbia General Fund. The District of Columbia Government's accounting information system – System of Accounting and Reporting (SOAR) was not utilized to track or identify the amounts of revenue of the PEF that were deposited to the General Fund until May 2001. The DCRA initiated a service contract to collect revenue for the registration and licensing of engineers on behalf of the PEF in August 2000.

(2) Revenue and Expense Recognition

Engineers renew their licenses every even year in August, except for new registrations and licensing, and requests for duplicate licenses. The last two renewal dates were August 2000 and August 2002. These dates do not coincide with the beginning of the fiscal year for DCRA, which is October 1. For

**DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
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NOTES TO THE FINANCIAL STATEMENTS

purposes of convenience, the renewal period is deemed to correspond with the beginning of the subsequent fiscal year.

Since renewal of licenses is for two years, to the extent that the earnings process has not been completed, DCRA records the cash received from licensing fee renewals as a liability (deferred/unearned revenue) to SOAR in the year the fees are collected. The deferred revenue is prorated equally over the next two fiscal years, recognizing revenue for the licensing period. At the end of the first year, half of the deferred revenue is recognized and recorded as revenue.

The main categories of expenses of the PEF are commissions to the contractor, Board members' travel, membership dues, publications, and meeting costs. No administrative overheads are currently charged to the PEF by DCRA. In accordance with the matching principle which stipulates that efforts (expenses) be matched with accomplishment (revenue) whenever it is reasonable and practicable to do so, commissions related to the unearned revenue are initially recorded as prepaid expenses and recognized as expenses when the related revenue is recognized in the financial accounts of the PEF.

(3) Net Assets

Net Assets represents the amount of equity the PEF has accumulated since the audit of the fiscal year ended September 30, 2000, which was the first audit of the PEF. Before that audit, DCRA commingled all PEF receipts with other DCRA activity in the general fund. Because the opening balance could not be determined by reasonable audit procedures, a zero "net asset" balance was used. Currently, net assets total \$191,452.

(4) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
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FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001**

NOTES TO THE FINANCIAL STATEMENTS

(5) Advances for Unprocessed Applications

Advances represent upfront fees collected by the contractor from applicants whose applications could not be processed because the applications were incomplete. These applications are not processed until all the required information is received and therefore not recognized as revenue. A corresponding liability is reported which equals the asset amount. The amount reported as of September 30, 2001, and March 31, 2001, was \$8,673 and \$10,188, respectively.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

OIG No. 03-1-9CR(a)
Final Report

Inspector General



Auditor's Report on Compliance and on Internal Control Over Financial Reporting

To the Director, Department of Consumer and Regulatory Affairs, Government of the District of Columbia; Chairman of the District of Columbia Board of Professional Engineers; and Chief Financial Officer, Government of the District of Columbia:

We have audited the financial statements of the District of Columbia Professional Engineers' Fund (PEF) as of and for the six months ended September 30, 2001, and have issued our report thereon dated August 20, 2003. We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

Compliance

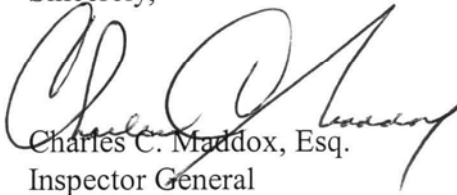
As part of obtaining reasonable assurance whether the financial statements are free of material misstatement, we performed tests of PEF's compliance with certain provisions of laws and regulations, the noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, our objective was not to provide an opinion on overall compliance with such provisions, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we will issue a management letter which details conditions we determine need improving but which are not reportable conditions or material weaknesses.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PEF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We noted several recurring matters involving internal controls over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect PEF's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described at **Exhibit I** of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. The condition reported at **Exhibit I** is a material weakness. The status of reportable conditions noted in prior audit reports is included at **Exhibit II**.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

CCM/cj

DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
PROFESSIONAL ENGINEERS' FUND
FINANCIAL STATEMENT AUDIT
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001

EXHIBIT I

FINDINGS AND RECOMMENDATIONS

FINDING – RECORDING PEF ACCOUNTING EVENTS IN SOAR AND PREPARING FINANCIAL STATEMENTS

SYNOPSIS

DCRA/OCFO personnel do not record all financial activity for the Professional Engineers' Fund in the District of Columbia Government's accounting information system – System of Accounting and Reporting (SOAR) and have not established all general ledger accounts in which to record PEF transactions. Currently, DCRA/OCFO only records receipts net of fees for commission expenses. OCFO accounting personnel did not have the contractor's reports from which to record transactions and were unaware of their responsibilities for recording all PEF activity to SOAR. As a result, DCRA/OCFO personnel were unable to prepare financial statements or provide total financial activity of the PEF and the results of operations and net position were undeterminable from SOAR. In addition, users (program staff and Board members) did not have information needed for financial planning and management.

AUDIT RESULT

DCRA management privatized the function of processing license applications and issuing licenses in 1996. License applicants generally send applications and fees directly to the contractor. The contractor then remits revenues, less their processing fee/commissions, to the D.C. Treasurer. The contractor handles most of the accounting functions in this process and provides the DCRA monthly reports of all financial activity involving the receipts collected, licenses issued, and amount on hand for unprocessed applications for the PEF. DCRA/OCFO personnel did not use the contractor's monthly reports to record the gross financial activity of the PEF to SOAR. There was no general ledger activity in SOAR other than the "net" amount the PEF received from the contractor and the revenue recorded for monies received directly by DCRA from the PEF licensee applicants. DCRA/OCFO personnel were unaware that they were supposed to record all financial activity nor did they have control procedures established to do so. As a result, DCRA/OCFO could not prepare financial statements, and SOAR account balances understated gross receipts and expenses from PEF licensing activity.

DCRA/OCFO did not establish a separate fund for the Board of Professional Engineers until after the first audits were completed for fiscal year 2000 and the six months ending March 31, 2001. The audits were conducted by an independent accounting firm which informed DCRA/OCFO of the need to set up a separate fund in accordance with requirements of the D.C. Code. DCRA/OCFO did set up the PEF as a result of the accounting firm's recommendation. However, DCRA/OCFO did not prepare journal entries to bring account balances to the March 31, 2001, audited balances.

FINDINGS AND RECOMMENDATIONS

The Statement on Auditing Standards (SAS) No. 78 (AU 319.06) defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting; (b) effectiveness and efficiency of operations; and (c) compliance with applicable laws and regulations. Additionally, the Committee of Sponsoring Organizations report requires pertinent information to be identified, captured, and communicated in a form and timeframe that enables people to carry out their responsibilities. The information system relevant to financial reporting objectives, which includes the accounting system, consists of the methods and records established to identify, assemble, classify, analyze, record, and report the entity's transactions, and to maintain accountability. To be effective, an information system should satisfy the internal control objectives of validity, completeness, classification, valuation, timing, presentation, and disclosure. The quality of system-generated information affects management's ability to make appropriate decisions in controlling the entity's activities and to prepare reliable financial reports.

DCRA/OCFO had not established all general ledger accounts in which to record accounting events related to the PEF. The results of operation and net position are undeterminable from SOAR.

RECOMMENDATION

The CFO, OCFO, establish the necessary general ledger accounts for PEF activity in SOAR and ensure that all accounting events are properly recorded in SOAR.

DCRA RESPONSE

DCRA concurred with the recommendation and has planned or taken actions to address each issue identified. The full text of DCRA's responses is at Exhibit III.

OIG COMMENT

We consider DCRA's actions to be responsive and meet the intent of the recommendation.

DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
PROFESSIONAL ENGINEERS' FUND
FINANCIAL STATEMENT AUDIT
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001

EXHIBIT II

**DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
PROFESSIONAL ENGINEERS' FUND
FINANCIAL STATEMENT AUDIT
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001**

**STATUS OF PRIOR PERIOD REPORTABLE CONDITIONS AND
MATERIAL WEAKNESSES**

Description of Findings	Finding present during audit for fiscal year ended:			Resolved Yes/No
	9/30/01	3/31/01	9/30/00	
PEF did not operate as a separate fund	No	Yes	Yes	Yes
Board did not publish roster of professional engineers as required	Yes	Yes	Yes	No
The Board's annual report to the Mayor was incomplete	Yes	N/A	Yes	No
Balances and transactions comprising the PEF are not reflected in the District's accounting system (SOAR)	Yes	Yes	Yes	No

DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
PROFESSIONAL ENGINEERS' FUND
FINANCIAL STATEMENT AUDIT
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001

EXHIBIT III

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Department of Consumer and Regulatory Affairs

03 AUG 21 AM 12:28



Office of the Chief Financial Officer

August 20, 2003

Charles C. Maddox, Esq.
Inspector General
Government of the District of Columbia
717 14th Street NW, Fifth Floor
Washington, DC 20005

Dear Mr. Maddox:

Thank you for the opportunity to respond to the Office of Inspector General's draft report on the Professional Engineers' Fund (PEF) Financial Statement Audit for the Fiscal Year Ended September 30, 2001.

The Office of the Chief Financial Officer (OCFO) welcomes the finding of the report and concurs with the accompanying recommendations to improve internal controls and strengthen financial management of the PEF. In response to the findings of the audit report, the OCFO has made entries in the District's SOAR financial management system to recognize correct account balances for the PEF for FY 2001. While existing general ledger accounts were used to record accounting events, additional accounts will be established in the future to present more clearly the financial position of the Fund. Also, the OCFO will record all revenues and expenses on a gross basis and recognize deferred revenue from two-year license renewals. Finally, the OCFO will develop written policies, procedures and controls to improve recording and reporting of monthly PEF financial activity in the District's SOAR financial management system.

We appreciate the effort that went into producing this report and the accompanying recommendations. If I can be of further assistance, please contact me at (202) 442-8684.

Sincerely,

Steven M. Russo,
Agency Chief Financial Officer,
Department of Consumer and Regulatory Affairs

cc: David A. Clark, Director, Department of Consumer and Regulatory Affairs
Natwar M. Gandhi, Chief Financial Officer
[REDACTED], OCFO Chief of Staff
[REDACTED], Associate Chief Financial Officer